

Service Date: December 7, 1984

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

* * * * *

IN THE MATTER of the Application)	UTILITY DIVISION
of the City of Hardin to Increase)	DOCKET NO. 84.4.16
Rates and Charges for Sewer Service.)	ORDER NO. 5066a

APPEARANCES

FOR THE APPLICANT:

William Hemmings, City Engineer, City of Hardin, 405 North Cheyenne Avenue, Hardin, Montana 59054

FOR THE INTERVENORS:

NONE

FOR THE COMMISSION:

Robert Nelson, Staff Attorney, 2701 Prospect Avenue, Helena, Montana 59620

BEFORE:

Thomas J. Schneider, Chairman and Hearing Examiner

BACKGROUND

1. On April 23, 1984, the City of Hardin (Applicant or City) filed an application with this Commission for authorization to increase sewer rates to its Hardin, Montana customers on a permanent basis by approximately 124%, which constitutes an annual revenue increase of approximately \$102,650.

2. Concurrent with its filing for a permanent increase in rates, the Applicant filed an application for an interim increase in rates of approximately 124%, equaling a revenue increase of approximately \$102,650 or 100% of the proposed permanent increase.

3. On June 19, 1984, the Commission, having considered the data filed with the Applicant's interim application, issued Order No. 5066 granting the City interim rate relief in the amount of \$50,851 annually.

4. On November 13, 1984, pursuant to notice of public hearing, a hearing was held in the City Council Chambers, City Hall, Hardin, Montana. The purpose of the public hearing was to consider the merits of the Applicant's proposed sewer rate adjustment. At the close of the hearing, the parties stipulated to allow the Commission to issue a final order in this Docket.

FINDINGS OF FACT

5. At the public hearing, the Applicant presented the testimony of one witness - William Hemmings, City Engineer. Mr. Hemmings is the City official charged with the responsibility of overseeing operations and administration of the City sewer utility. Mr. Hemmings testified relative to: the current financial condition of the sewer utility, projected increases in operation and maintenance expense, the need for funding of a five (5) year capital improvement program, rate structure and revenue projections.

6. No public witnesses appeared at the hearing to either support or object to the proposed increase in sewer rates.

OPERATION AND MAINTENANCE EXPENSE

7. The test year in this case is the fiscal year ending June 30, 1984, adjusted for inflation and an increased level of funding for adequate maintenance of the system. The test year operation and maintenance expenses totaling \$153,900 were not challenged by any party participating in this proceeding and are, therefore, accepted by the Commission.

DEBT SERVICE

8. The City has a current outstanding revenue bond with an annual principal and interest payment of approximately \$19,300. This revenue bond issue is a joint venture involving three of the City's enterprise operations, (solid waste, water and sewer departments). Each of these departments

has an obligation, as provided in Resolution No. 1182 of the City of Hardin, to fund 1/3 of the annual principal and interest payment on this bond issue. The City has indicated that the sewer department's 1/3 obligation for payment of principal and interest on this bond is \$6,286. The Commission accepts the City's calculation of principal and interest payment responsibility for the sewer department since it approximates 1/3 of \$19,300.

9. In any sale of municipal bonds, the purchasers of the bonds must be assured their investment is secure. To provide this security, the municipality makes a promise, called a covenant, to do certain things that will ensure that it will always be able to pay the bonds principal and interest as they come due. In this instance, the City included covenants agreeing to establish a bond reserve fund in an amount equal to the maximum principal and interest payment on the bond. The sewer department, per the bond indenture, has an obligation to provide 1/3 of the funding for the bond reserve account. To date, the sewer department has not had sufficient funds available to allow for the establishment of the required bond reserve.

The City's failure to meet the requirements of its revenue bond indenture, insofar as it relates to the accumulation of a bond reserve in an amount equal to the maximum principal and interest payment due in any future year, places it in technical default on its currently outstanding revenue bond issue. The City has requested that the Commission allow funding in the amount of \$1,330 annually so that the sewer department's obligation to provide 1/3 of the funding for the revenue bond reserve can be accomplished during the next five (5) years.

10. The Commission finds the bond covenant, establishment of a reserve fund, to be among the standard requirements for the issuance of revenue bonds and, therefore, accepts the City's request for annual funding in the amount of \$1,330.

RECURRING ANNUAL CAPITAL IMPROVEMENT PROGRAM

11. The City in this case has requested approval of revenues sufficient to provide funds for a Recurring Annual Capital Improvement Program (RACIP). The City is requesting that the Commission grant rates sufficient to provide \$25,000 annually for funding of the RACIP. The City in its filing outlined a five (5) year RACIP with a total estimated cost for the improvements of

approximately \$125,000. Annual funding in the amount of \$25,000 for the RACIP will allow the City to replace deteriorated mains that are a continual maintenance problem, build a new lift station, and allow for the accumulation of matching funds for replacement of the force main (from town to the treatment plant) which is reaching capacity.

12. This Commission fully supports the adequate funding of a RACIP when that funding is tied to a schedule of contemplated system improvements. The Commission finds that adequate funding of this type of account is both prudent management and regulation, in that it allows for proper system maintenance; therefore, the Commission finds the City's request for annual funding in the amount of \$25,000 to be reasonable.

13. Based on Findings of Fact Nos. 7, 8, 10 and 12, the Commission finds the following test year operating revenue deductions to be reasonable:

Operating Expenses	\$153,900
Debt Service	6,286
Reserve Account	1,330
RACIP	<u>25,000</u>
TOTAL	\$186,516

REVENUE NEED

14. The City in its application indicated that, under present rates effective February, 1984, user charges would generate approximately \$82,635 in annual revenues. During the course of cross-examination, it was determined that the user charge revenues presented in the application had not been annualized. The Applicant's witness during cross-examination admitted that the City's failure to annualize user charge revenues caused them to be understated, and that user charge revenues under present rates would be approximately \$99,635 annually instead of the \$82,635 presented in the application. The Commission finds that user charge revenues under present rates will be approximately \$99,635.

15. The Commission, based upon the Findings of Fact contained herein, finds that Applicant should be allowed to increase annual revenues by \$86,881. This requirement is calculated as follows:

Operating Revenue	\$ 99,635
Less:	
Operating Expenses	\$153,900
Debt Service	6,286
Reserve Account	1,330
RACIP	<u>25,000</u>
TOTAL REVENUE REQUIREMENT	\$186,516
REVENUE DEFICIENCY	\$ 86,881

RATE DESIGN

16. The Applicant proposes to continue the current sewer rate structure, and to generate the increased revenue determined appropriate in this order by increasing rates for all sewer services on a uniform percentage basis. The currently effective rate structure includes a minimum charge and a single rate usage charge on water consumption in excess of that allowed in the minimum charge block (the City uses metered water consumption as the basis for assessment of the monthly sewer use charge).

17. The currently effective rate structure allows 14,000 gallons of water consumption in the minimum charge rate block. The 14,000 gallon consumption allowance, in the minimum charge, is the assumed average residential user's monthly flow contribution to the City's sewer facility. The average residential user's monthly flow of 14,000 gallons was determined in 1979 as part of a compliance requirement that an equitable user charge system be implemented prior to receiving matching funds from the EPA for renovation of certain sewer facilities.

18. Since the City had available an average residential flow figure, that it assumed was accurate, the City used a residential equivalent basis calculation to determine the rates that should be implemented to generate the desired revenue. The City, in a June 20, 1984 letter to Ronald R. Woods of the Commission staff, indicated that on an annual basis the sewer utility treated the flows of 17,268 residential equivalents, this converts to the sewer utility treating 241,752,000 gallons of sewage annually ($14,000 \times 17,268 = 241,752,000$).

19. Examination of the City of Hardin's, Annual Sewer Utility Report, filed with the Montana Public Service Commission, revealed that the statistics section reflected total sewage pumped of 142,766,000 gallons, 162,214,000 gallons, and 141,496,000 gallons for the years 1981, 1982 and 1983, respectively. The average annual sewage pumped, based on the statistics obtained from the 1981 through 1983 annual reports, equals approximately 148,825,000 gallons.

20. During cross-examination, Mr. Hemmings was asked if he could reconcile the difference between the calculated flow in Finding of Fact 18 and the average annual flow determined from the annual report information in Finding of Fact 19. He indicated that, apparently, the information in Finding of Fact 18 is predicated on total annual water sales and not sewage flow information as previously thought. He further stated that the average annual sewage flow determined in Finding of Fact 19 probably more fairly reflected the actual average flows for the City of Hardin's sewer utility.

The Commission, based upon the testimony in this docket, finds that the average annual flow of 148,825,000 gallons should be used for purposes of determining a fair and equitable rate structure.

21. The Applicant's proposed rate structure assumes an average annual sewage flow of 241,752,000 gallons. The Commission's finding that the flow is substantially below that level, 148,825,000 gallons, will require the implementation of a modified rate structure which is designed to generate total annual revenues of \$186,516 and fairly distributes the revenue burden between the various customer classes.

22. Mr. Hemmings indicated during his testimony that the only customers whose sewage flow was based on actual information, obtained from the water utility, was that for the 79 commercial accounts which are equal to 298 residential equivalents at 14,000 gallons of water consumption monthly (see letter of June 20, 1984). Based on this information, the Commission has determined the total annual sewage flow for these 79 accounts is 50,064,000 gallons.

Since the Commission had the ability to determine the annual sewage flow for the 79 largest commercial accounts, it can calculate the flow for the remaining customers. The flow for the remaining customers is 98,761,000 gallons annually and is calculated by subtracting the flow

determined for the 79 commercial accounts from the average annual flow obtained from the annual reports ($148,825,000 - 50,064,000 = 98,761,000$).

23. Sewer flow data is the only verifiable operating characteristic available that can be used as a vehicle for distributing revenue burden. Therefore, for purposes of determining an equitable distribution of revenue burden, between the customer classifications, the Commission finds a volumetric distribution is warranted.

24. Based on a volumetric distribution of revenue burden, the 79 commercial accounts would have to provide 33.64% of the sewer utility's overall revenue requirement ($50,064,000 \div 148,825,000 = .33639$). This means that the rates implemented for these 79 accounts will have to produce total annual revenues in the amount of \$62,744 ($\$186,516 \times .3364 = \$62,744$).

25. The remaining accounts, using a volumetric distribution of revenue burden, will have to provide 66.36% of the sewer utility's overall revenue requirement ($98,761,000 \div 148,825,000 = .6636$). This means that the rates implemented for the remaining 1,141 accounts will have to generate total annual revenues equaling \$123,772 ($\$186,516 \times .6636 = \$123,772$).

26. The Commission finds that, for the 79 largest commercial accounts, to generate an annual revenue contribution of \$62,744, on a volume of 50,064,000 gallons of sewage flow, the City should implement a usage charge of \$1.25 per thousand gallons of water consumer ($\$62,744 \div 50,064 = \1.253). The Commission further finds that the Applicant's request to continue the assessment of a minimum charge, on these accounts, which allows for 14,000 gallons of consumption, should be granted as long as that consumption is rated at a cost of \$1.25 per thousand. The continuance of the minimum charge will allow the City a limited degree of revenue stability on these accounts and possibly minimize the effect of customer resistance to the rate increase.

27. The establishment of a rate for the remaining customers connected to the City's sewer facilities presents some difficulties for the Commission. The Commission generally requires sewer utilities, that base monthly sewer charges on metered water consumption, to determine the average winter month's consumption for each individual account and then apply the approved usage charge to that consumption. In this instance, the City does not have available the average winter

consumption for each individual account; therefore, the Commission cannot use its general ratemaking theory in establishing rates for the remaining customers.

It is the Commission's understanding, based on the testimony in this case, that residential consumers and small commercial consumers, historically, have paid a flat monthly rate for sewer service. The Commission is of the opinion that, until the sewer utility has determined the average winter consumption for each of the remaining consumers, continuation of the flat monthly rate is appropriate.

28. The Commission finds that the remaining consumers (residential and small commercial) should be assessed a monthly flat rate of \$9.04. This assessment will allow the utility to generate an annual revenue contribution of \$123,772 from this customer classification, which is the contribution level determined appropriate in Finding of Fact No. 25 ($(\$123,772 \div 1,141) \div 12 = \9.039).

CONCLUSIONS OF LAW

1. The Montana Public Service Commission properly exercises jurisdiction over the parties and subject matter in this proceeding. Section 69-3-102, MCA.

2. The Commission afforded all parties interested in this proceeding proper notice and an opportunity to participate. Section 69-3-303, MCA.

3. The rates approved herein are reasonable, just and proper. Section 69-3-201.

ORDER

NOW THEREFORE, IT IS ORDERED THAT:

1. The City of Hardin shall file tariffs consistent with the Findings of Fact for Docket No. 84.4.16 contained herein.

2. The revenues granted herein are in lieu of, and not in addition to, the revenues granted in Interim Order No. 5066.

3. The rates approved herein shall be effective for services rendered on and after December 3, 1984.

DONE IN OPEN SESSION at Helena, Montana, this 3 rd day of December, 1984, by a vote of 5 to 0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.

THOMAS J. SCHNEIDER, Chairman
and Hearing Examiner

JOHN B. DRISCOLL, Commissioner

HOWARD L. ELLIS, Commissioner

CLYDE JARVIS, Commissioner

DANNY OBERG, Commissioner

ATTEST:

Madeline L. Cottrill
Commission Secretary

(SEAL)

NOTE: Any interested party may request the Commission to reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.